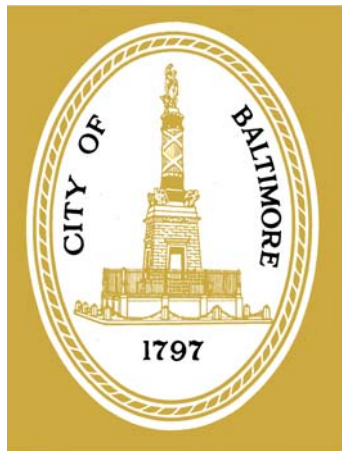


PERFORMANCE AUDIT REPORT

Department of Finance Bureau of Treasury Management Collection Division – Parking Fine Section

Policies and Procedures for Issuing Tag Release Forms

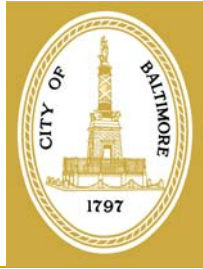
February 2003



**City of Baltimore
Department of Audits**

CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor



DEPARTMENT OF AUDITS

YOVONDA D. BROOKS, CPA
City Auditor

Room 321, City Hall
Baltimore, Maryland 21202
Telephone: (410) 396-4783
Telefax: (410) 545-3961

February 27, 2003

Honorable Joan M. Pratt, Comptroller
And Other Members of the Board of Estimates
City of Baltimore

We conducted an audit of the policies and procedures of the Collection Division – Parking Fine Section of the Department of Finance’s Bureau of Treasury Management for issuing VR119 Tag Release Forms. The Department of Finance requested this audit after it became aware of questionable activity by an employee who breached fiscal policies and procedures in the Parking Fine Section. The employee has resigned, and the case is being investigated by the Police Department and the Department of Law. The purpose of our audit is to identify weaknesses in internal controls that could have allowed errors or irregularities to occur without being detected in a timely manner, to identify the corrective action/changes in policies and procedures initiated by the Department of Finance, and to determine whether the corrective action taken adequately addresses those weaknesses and whether the policies and procedures are being followed.

We believe that the lack of adequate segregation of duties to perform the various functions related to issuing vehicle tag release forms, the lack of adequate records to account for all vehicle tag release forms printed and to identify the employees who printed those forms, and the lack of effective review procedures for release forms issued or voided contributed to the likelihood that errors or irregularities could have occurred without being detected in a timely manner. In April 2002, after the Department of Finance became aware of questionable activity, it immediately began taking corrective action and reviewing the policies and procedures for issuing VR119s. In September 2002, it adopted new written policies and procedures designed to segregate duties and enhance other controls over the issuance of VR119s. However, as a result of our audit, we noted certain areas where the effectiveness of the new procedures could be improved, and we recommend that:

- The daily VR119 release logs include all VR119s printed, be modified to include VR119 control numbers, include a notation as to whether the VR119s were actually issued or voided and include evidence of appropriate supervisory approvals.
- Care be taken to print only the number of VR119s needed for each vehicle tag renewal. Voided VR119s should be appropriately marked as such by a person not responsible for printing the form. VR119s that were approved and faxed to the Motor Vehicle Administration should be appropriately marked as “faxed” to prevent unauthorized reuse,

and those VR119s should not be included with the voided VR119s. Appropriate entries for the voided and faxed transactions should be included on the daily logs.

- Both the Customer Service Representative (CSR) and the Supervisor in the Parking Fine Section participate in the processing and approval of all VR119s printed and processed within the Parking Fine Section. In accordance with established procedures designed to provide a segregation of duties, the CSR should present the Supervisor with proof that all outstanding balances for each applicable vehicle tag number have been paid in full or otherwise satisfied. Appropriate entries should be made on the daily VR119 logs.
- The review of the daily verification reports be performed by someone other than the employees processing or approving the VR119s.
- The daily verification reports of VR119s be used to account for the numerical sequence of all VR119s printed, ensuring that there are no missing or duplicated VR119 control numbers. Also, the review of the daily verification reports should be performed more timely and be adequately documented.
- The City obtain guidance from the Department of Law to determine the propriety of routinely abating parking fine penalties incurred after the date of vehicle registration cancellation and to determine whether there are other means available for the City to pursue the collection of those past due penalties.

Respectfully submitted,

Yovonda D. Brooks, CPA
City Auditor

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Background Information

Customers scheduled to renew their vehicle tags but who owe outstanding City parking or red light fines and penalties must first obtain a VR119 Tag Release Form (VR119) in order to renew their tags with the State Motor Vehicle Administration (MVA). Generally, VR119s are issued when the customer makes full payment of the outstanding fines and penalties. VR119s are also issued for other reasons, such as a pending court appearance, trial date, approved petition, etc. According to Parking Fine Billing Summary Reports for the seventeen-month period from July 2001 through November 2002, the City collected approximately \$22 million in parking fines and penalties and \$8.5 million in red light camera violation fines, and the City abated fines and penalties, totaling approximately \$3.7 million.

Beginning in April 2002, some customers complained that they had paid a portion of their outstanding fines and penalties and were given VR119s to renew their tags at that time under what they believed to be a special discount program. But later, they found that the balances still existed, had grown by \$16 each month in penalties, and needed to be paid before the next scheduled tag renewal.

Audit Scope, Objectives and Methodology

We conducted a performance audit of the policies and procedures of the Collection Division – Parking Fine Section of the Department of Finance for issuing VR119 Tag Release Forms. Our audit fieldwork began in August 2002, and our inquiries, observations and tests of applicable records and reports focused on VR119s printed subsequent to the establishment of new written policies and procedures in September 2002. Our audit was conducted in accordance with generally accepted *Government Auditing Standards* related to performance audits, issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

The objectives of our audit were to identify the internal control weaknesses that could have allowed errors or irregularities to occur without being detected in a timely manner, obtain an understanding of the corrective action/changes in policies and procedures initiated by the Department of Finance for issuing VR119s, and determine whether the corrective action taken adequately addresses those weaknesses and whether the policies and procedures are being followed.

To accomplish our objectives, we reviewed written procedures for issuing VR119s and had discussions with various personnel from the Department of Finance's Parking Fine and Cash Processing Sections and the Mayor's Office of Information and Technology (MOIT). We also reviewed various records and reports utilized to process, monitor and control the issuance of VR119s.

Our findings and recommendations are detailed in the Findings and Recommendations section of this report. The Bureau of Treasury Management's response to our findings and recommendations is included as an appendix to this report.

Identification of Internal Control Weaknesses That Could Have Allowed Errors or Irregularities to Occur Without Being Detected In a Timely Manner

Based on our review of the changes in procedures established by the Department of Finance for issuing VR119s as well as our discussions with various personnel in the Parking Fine and Cash Processing Sections and MOIT, we believe that the following internal control weaknesses contributed to the likelihood that errors or irregularities could have occurred without being detected in a timely manner.

- Duties for collecting parking fines and processing, approving and issuing applicable VR119 Tag Release Forms (VR119s) were not adequately segregated. Anyone in the Parking Fine Section could print and sign the VR119s. Also, access to the seal used for validating VR119s was not adequately controlled. Although established procedures required customers to pay outstanding fines and penalties at the teller window in the Cash Processing Section in order to remove flags for tag renewals, it is our understanding that at times, the Collection Supervisor in the Parking Fine Section may have collected those payments and issued the applicable VR119s. Consequently, it was possible for one employee, especially a Supervisor, to perform all the functions for collecting parking fines and processing, approving and issuing the applicable VR119s.
- Controls were not in place to account for all VR119s printed and to identify the employees who printed those forms. The VR119s were not pre-numbered and sequential VR119 control numbers were not automatically assigned by the computer when the forms were generated. Also, the Parking Fine Section did not retain copies of issued or voided VR119s, and the automated Parking Fine System did not include information to indicate whether VR119s were issued for vehicles flagged to prevent tag renewals.
- The effectiveness of any supervisory reviews that may have been performed for the VR119s issued was limited since the duties for performing the various functions related to issuing VR119s were not adequately segregated and controls were not in place to account for all VR119s issued or voided.

Corrective Action – Changes in Policies and Procedures Initiated by the Department of Finance

After the Department of Finance became aware of questionable activity by an employee who breached fiscal policies and procedures in the Parking Fine Section, it established several changes in policies and procedures to segregate duties and enhance other controls over the issuance of VR119s.

- The duties and responsibilities for issuing VR119s to release flags for walk-in customers paying the full amount of outstanding fines and penalties have been separated between the Parking Fine Section and the Cash Processing Section.

- Controls have also been established to provide a segregation of duties for situations where the VR119s are printed and issued within the Parking Fine Section by involving another employee, a Customer Service Representative (CSR), in the process and maintaining a daily release log of the VR119s requested by the CSR.
- A sign has been placed in full view of customers reporting to the parking fine counter stating that no form of payment should be made in the Parking Fine Office.
- The Mayor's Office of Information Technology (MOIT) produces a daily verification report listing all VR119s printed through the Parking Fine System and any outstanding balances for the applicable vehicle tag numbers. The report also includes the VR119 control numbers automatically assigned by the computer for each VR119 printed and identifies the employees who issued the print instructions. The Parking Fine Supervisor reviews the daily verification reports and investigates those instances where VR119s were issued for vehicle tags that had outstanding balances.

**Determination of Whether the Corrective Action Taken
Adequately Addresses the Identified Control Weaknesses
And Whether the Policies and Procedures are Being Followed**

Conclusion

In September 2002, the Department of Finance adopted new written policies and procedures designed to segregate duties and enhance other controls over the issuance of VR119s. However, based on our discussions with appropriate personnel, as well as our review of MOIT's daily verification reports for VR119s issued from October 1, 2002 through October 18, 2002, the applicable daily logs for VR119s issued within the Parking Fine Section, and the file representing voids, we noted certain weaknesses, discrepancies and inadequate record keeping procedures which we believe should be addressed by management.

The daily release logs for VR119s initiated, approved, printed and issued within the Parking Fine Section were incomplete, and the effectiveness of those logs could be improved by including certain information to document the segregation of duties and approval process. We also noted certain areas where the segregation of duties has not been achieved and other conditions that compromised the effect of the new procedures established to segregate duties. Voided release forms were not adequately controlled. Furthermore, the review of the daily verification reports of VR119s printed for vehicle tags with outstanding fine and penalty balances was not up-to-date and was inadequately documented. Consequently, improvements can be made to the newly established procedures to segregate duties and enhance other controls over the issuance of VR119s that would reduce the City's vulnerability to errors or irregularities occurring and not being detected in a timely manner.

Background

The duties and responsibilities for issuing VR119s to release flags for walk-in customers paying the full amount of outstanding fines and penalties have been separated between the Parking Fine and Cash Processing Sections. However, VR119s for customers who are not paying the full amount of reported outstanding fines and penalties are initiated, approved, printed and issued within the Parking Fine Section. For those circumstances, the changes in policies and procedures provide, to some extent, for a segregation of duties within the Parking Fine Section by involving another employee, a Customer Service Representative (CSR), in the process. A CSR must present the Supervisor, or in her absence a designated CSR, with appropriate documentation to justify issuing the VR119s. Also, a daily release log is maintained that lists each VR119 requested by the CSR. The CSR and the Supervisor then sign the VR119s and a second Supervisor applies the seal to validate the forms. As an additional control, MOIT prepares a daily verification report of all VR119s printed. The newly established procedures require the Parking Fine Supervisor to review and investigate VR119s included on the daily verification report with outstanding fine and penalty balances.

Findings and Recommendations

Finding #1

The daily VR119 release logs were incomplete and the effectiveness of those logs could be improved by including certain information to document the segregation of duties and approval process.

Analysis

The daily VR119 release logs were incomplete, and the effectiveness of those logs could be improved by including certain information to document the segregation of duties and approval process. The daily verification reports for October 1, 2002 through October 18, 2002 included VR119s printed for almost 100 vehicle tags with outstanding balances, totaling approximately \$23,000, that were not included on the daily release logs maintained in the Parking Fine Section to indicate that the release was justified and approved by an appropriate Supervisor and were not included in the file representing voids. Also, the VR119s printed and either issued or voided in the Cash Processing Section were not included in the daily logs.

Also, since the VR119s are given to the customers, there is no record to document the segregation of duties and to demonstrate that appropriate approvals have been obtained. Although the daily release logs maintained for VR119s printed within the Parking Fine Section contain the applicable vehicle tag numbers and initials of the CSRs requesting the VR119s, the logs did not include the applicable VR119 control numbers. As reported under Finding #2 below, numerous VR119s were often printed for the same vehicle tag number. Also, the logs did not indicate whether the VR119s were actually issued or voided, and did not contain evidence of supervisory approval (Supervisor's signature or initials).

Recommendation

We recommend that the daily release logs include all VR119s printed and be modified to include VR119 control numbers. We also recommend that the logs include a notation as to

whether the VR119s were actually issued or voided and include evidence of appropriate supervisory approvals. If the logs are properly utilized, they could serve as the primary record to document the segregation of duties and approval process, facilitate the accounting for all VR119s issued or voided, and facilitate and support a more timely review of the daily verification reports referred to under Finding #4.

Finding #2

Several VR119s were often printed for each vehicle tag renewal and voided transactions were not adequately controlled.

Analysis

Several VR119s were often printed for each vehicle tag renewal, and voided transactions were not adequately controlled. According to Parking Fine personnel, no more than two VR119s are needed in order to renew the MVA registration for each vehicle tag that has been flagged because of unpaid fines and penalties (one for parking fines and one for red light violations). However, we noted that more than two VR119s were often printed on the same day for each vehicle tag. Many times, four or more VR119s were printed for each vehicle tag; in one case, sixteen (16) VR119s were printed on the same day for one vehicle tag number.

Many of the multiple VR119s printed were included in the file of voided forms but were not marked "VOID." In fact, very few of the VR119s included in the file of voids were properly marked as such. We also noted that many of the VR119s included in the file of voids contained authorizing initials and the validating seal. This may represent original VR119s that were faxed to the MVA and incorrectly filed with the voided transactions. As is the case with the voids, there was no evidence on the VR119s indicating that they had been faxed to the MVA. Also, the voided forms that have not been marked as such as well as the forms containing authorizing initials and validating seals that were included with the voided forms were maintained in the Parking Fine Section by a Supervisor who can initiate, approve and issue VR119s, thereby negating the effect of the procedures established to segregate duties.

Recommendation

We recommend that more care be taken to print only the number of VR119s needed for each vehicle tag renewal. Voided VR119s should be appropriately marked as such and signed by a person not responsible for printing the form. Also, VR119s that were approved and faxed to the MVA should be appropriately marked as "faxed" to prevent unauthorized reuse, and those VR119s should not be included with the voided VR119s. Appropriate entries for the voided and faxed forms should be included on the daily logs (refer to Finding #1).

Finding #3

Under certain circumstances, the duties and responsibilities for initiating, approving, printing and issuing VR119s were not adequately segregated.

Under certain circumstances, the duties and responsibilities for initiating, approving, printing and issuing VR119s were not adequately segregated. For those situations where the VR119s were issued within the Parking Fine Section, the new policies require that both the Supervisor and a

CSR participate in the process. However, when customers paid the outstanding fines and penalties by credit card through the telephone and requested that the VR119s be faxed to the MVA, sometimes the Collection Supervisor in the Parking Fine Section verified the payment by telephone and processed the VR119 without involving a CSR in the process.

Also, the review of the daily verification reports of VR119s printed for vehicle tags with outstanding fine and penalty balances was performed by a Collection Supervisor who could initiate, approve and issue VR119s. Consequently, it is possible for the Collection Supervisor to also verify her own work.

Recommendation

We recommend that both the CSR and the Supervisor in the Parking Fine Section participate in the processing and approval of all VR119s printed and processed within the Parking Fine Section. We recommend that established procedures be followed that require the CSR to present the Supervisor with proof that all outstanding balances for each applicable vehicle tag number have been paid in full or otherwise satisfied. If a credit card payment was made either through the telephone or online and not yet posted to the Parking Fine System, the CSR should verify the payment of the outstanding balances. Appropriate entries should be made on the daily logs. We also recommend that the review of the daily verification reports be performed by someone other than the employees processing or approving the VR119s.

Finding #4

The review of the daily verification reports of VR119s printed could be improved by including procedures to account for the numerical sequence of all VR119s printed to ensure that there are no missing or duplicated control numbers. Also, the review was not up-to-date and was inadequately documented.

Analysis

The review of the daily verification reports of VR119s printed could be improved by including procedures to account for the numerical sequence of all VR119s printed to ensure that there are no missing or duplicated VR119 control numbers. Also, the review was not up-to-date and was inadequately documented. According to the written procedures, the Parking Fine Supervisor is responsible for reviewing the daily verification reports. This task, however, was delegated to the Collection Supervisor in the Parking Fine Section. The Collection Supervisor told us that she discussed the transactions that had not been resolved by examining the void files with the Parking Fine Supervisor. However, there was no documentation to substantiate the discussion and review with the Parking Fine Supervisor or to indicate whether the VR119s in question were properly issued.

Recommendation

We recommend that the review of the daily verification reports of VR119s include procedures to verify the completeness and accuracy of those reports by accounting for the numerical sequence of all VR119s printed, ensuring that there are no missing or duplicated VR119 control numbers. We also recommend that the review of the daily verification reports be performed more timely and be adequately documented. As stated in the

recommendation under Finding #1, if the daily logs are properly utilized, they could serve as the primary record to document the segregation of duties and approval process, facilitate the accounting for all VR119s issued or voided, and facilitate and support a more timely review of the daily verification reports.

Other Issues

Potential Lost Revenue Due to the Abatement of Penalties Incurred After Vehicle Registration Cancellation Date

During our audit, we noted that the City could possibly be losing potential revenues because certain abatements are given to parking fine customers who are late in paying fines and penalties for violations applicable to vehicles if the customers choose not to renew the tags for those vehicles. Parking fines and penalties are abated for various reasons. For example, parking fines and penalties are abated if the court finds the defendants not guilty or if the cases are dismissed. Other abatements are granted for errors or overcharges to customers' accounts. According to Parking Fine Billing Summary Reports for the seventeen-month period from July 1, 2001 through November 26, 2002, the City abated parking fines and penalties, totaling approximately \$3.7 million (\$1.7 million because the customers were either found not guilty or the cases were dismissed and \$2 million for other abatements). We could not determine the portion of the \$2 million abatements granted because of expired or canceled tags since the records do not specifically identify those transactions. However, the amount could be substantial. For example, we noted two cases where the penalties were abated because the vehicles' tags had been previously canceled. In one case, the fines and penalties totaled \$3,065; the customer paid \$728 and \$2,337 was abated. In another case, the fines and penalties totaled \$1,579; the customer paid \$523 and \$1,056 was abated.

We were told that the policy of abating parking fine penalties that were incurred after the date a vehicle's tags were cancelled has been in effect for many years. Employees in the Parking Fine Section could not provide us with documentation authorizing the abatement policy. Article 31, Section 36-23(c) of the Baltimore City Code, however, states that amnesty for the payment of penalties that have accumulated on parking or stopping fines may be offered by the Director of Finance, but such amnesty is subject to the approval of the Board of Estimates. To our knowledge, no such amnesty program is in effect.

It is our understanding that under current procedures, an MVA flag on a cancelled tag does not automatically transfer to a new tag for the same driver. We believe that the abatement of unpaid penalties should not be based on whether someone turns in their tags without renewal; the penalties are assessed for failure to pay outstanding fines and penalties in a timely manner. Consequently, we believe that the drivers should be held responsible for paying all assessed fines and penalties until the amounts are properly determined to be uncollectible. For example, Baltimore County Maryland does not abate penalties incurred after the dates that vehicle tags are canceled. Instead, when outstanding fines and penalties exceed \$500, collection is pursued through the court system by obtaining judgments.

Recommendation

We recommend that the City obtain guidance from the Department of Law regarding the propriety of routinely abating parking fine penalties incurred after the date of vehicle registration cancellation and to determine whether there are other means for the City to pursue the collection of those past due penalties.

APPENDIX I

THE BUREAU OF TREASURY MANAGEMENT'S RESPONSE

TO THE

PERFORMANCE AUDIT OF

DEPARTMENT OF FINANCE

BUREAU OF TREASURY MANAGEMENT


COLLECTION DIVISION – PARKING FINE SECTION

POLICIES AND PROCEDURES FOR

ISSUING TAG RELEASE FORMS

AND

AUDITOR'S COMMENTS ON AGENCY RESPONSE

| | | | | |
|-------------|-----------------------|--|--|--|
| FROM | NAME & TITLE | Stanley J. Milesky, Chief Bureau of Treasury Management | CITY of BALTIMORE MEMO |  |
| | AGENCY NAME & ADDRESS | Abel Wolman Municipal Building, Room 7 200 Holliday Street 410-396-4752 | | |
| | SUBJECT | Responses to the Revised Discussion Draft Policies and Procedures for Issuing VR119 Tag Release Forms | | |

TO

Yvonda Brooks, City Auditor
Bureau of Audits
Room 321, City Hall

DATE: February 13, 2003

Attached are the responses to the Discussion Notes for the audit of the Parking Fine Section of the Bureau of Treasury Management for issuing the VR119 Tag Release Form. This office appreciates all the effort put into the audit.

If you have any questions regarding these responses, please contact me on 6-4752.

SJM/PEC:mcb

Attachment

cc: Peggy J. Watson, Director of Finance
Pat Crosby, Treasury Manager, Bureau of Treasury Management
Joyce Camphor, Supervisor, Bureau of Treasury Management, Parking Fines Section

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Revised Discussion Draft – Policies and Procedures **For Issuing VR119 Tag Release Forms**

Findings and Recommendations:

Recommendation #1

We concur with the auditor's recommendations. The daily VR119 release logs were incomplete and have been revised to include the VR119 control numbers; to indicate the action taken with the form (i.e. issued to the customer, voided or faxed to MVA); and to indicate supervisory approvals. The Parking Fines Section will continue to utilize this manual log; however, MOIT is in the process of developing a report that will eventually replace the manual VR119 release logs. This new report should be ready in the next 90 days.

Recommendation #2

We concur with the auditor's recommendations and the Parking Fines Section will exercise great care to ensure that duplicates of the VR119 forms are not printed unnecessarily. Voided VR119s are being stamped VOID by a supervisor or designated employee in the Cash Processing Unit. VR119s that have been faxed are being shredded with the fax verification sheet. Appropriate entries for the voided and faxed forms are being included on the daily logs.

Recommendation #3

We concur with the auditor's recommendations and both the Customer Service Representative (CSR) and the Supervisor in the Parking Fine Section will participate in the processing and approval of all VR119s printed and processed within the Parking Fine Section. Established procedures require the CSR to present the Supervisor with proof that the VR119 form should be issued are being followed. If a credit card payment was utilized for payment, and the payment has not yet been posted to the Parking Fine System, the CSR is verifying the payment by telephone to Official Payments Corporation. Appropriate entries are being made on the daily logs. A Treasury employee, who does not process or approve the VR119s, will perform the review of the daily verification reports.

Recommendation #4

We concur with the auditor's recommendations. The daily verification reports of VR119s will include procedures to verify the completeness and accuracy of the

reports by accounting for the numerical sequence of all forms printed, ensuring that there are no missing or duplicated VR119 control numbers. The review of the daily verification reports will be performed more timely and will be adequately documented by an employee in the Treasury Division.

Other Issues

The Bureau of Treasury Management will seek guidance from the Department of Law regarding the propriety of routinely abating parking fine penalties incurred after the date of vehicle registration cancellation and to determine whether there are other means for the City to pursue the collection of those past due penalties.

AUDITOR'S COMMENTS ON AGENCY RESPONSE TO THE PERFORMANCE AUDIT

The response of the Bureau of Treasury Management to our performance audit is included in this appendix. The corrective action outlined in the response addresses most of our findings and recommendations. However, the Bureau of Treasury Management's response did not adequately address two of our recommendations. In addition, certain statements in the Bureau of Treasury Management's response require clarification.

Procedures to Improve the Effectiveness of the Daily VR119 Release Logs

We recommended that the daily release logs include all VR119s printed. The Bureau of Treasury Management's response did not indicate whether these logs would include the VR119s printed in the Cash Processing Section. Additionally, the response stated that a new automated report will be developed within 90 days to replace the existing manual log. However, the response did not explain the manner in which this report would document the existence of a proper segregation of duties over the processing of VR119s, the approval of the VR119s, and the final disposition of the VR119s (issued, voided, faxed, etc.).

Procedures for Voided VR119s

We recommended that voided VR119s be appropriately marked void and be signed by a person not responsible for printing the form. The Bureau of Treasury Management's response stated that the Cash Processing Section (which does not initiate the printing of the VR119s) will void unprocessed VR119s. However, the response did not state whether these voided forms will be signed by a person not responsible for printing the VR119s.

Procedures to Adequately Segregate Duties Over VR119s

We recommended that established procedures be followed that require the CSR to present the Supervisor with proof that all outstanding balances for each applicable vehicle tag number have been paid in full or otherwise satisfied. Additionally, we recommended that the CSR verify the payment of the outstanding balances when a credit card payment is made through the telephone or online and has not been posted to the Parking Fine System. We also recommended that these verifications be documented on the daily logs. The Bureau of Treasury Management's response stated that all of these procedures are being followed. However, these procedures were not being followed during our audit period (August through November 2002).